COMPLIANCE AUDIT

Abington Township
Non-Uniformed Pension Plan
Montgomery County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

February 2020

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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Department of the Auditor General
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www.PaAuditor.gov

EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Board of Township Commissioners
Abington Township
Montgomery County
Abington, PA 19001

We have conducted a compliance audit of the Abington Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- We determined whether retirement benefits calculated for 14 of the 45[1] plan members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for 2 of the 4[2] plan members who elected to vest during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.

- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Abington Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

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[1] We selected plan members randomly from the population of plan members who retired during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit-sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

[2] We selected plan members randomly from the population of plan members who elected to vest during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit-sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Abington Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Abington Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Abington Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

Eugene A. DePasquale

February 12, 2020

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality, which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Abington Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Abington Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 14-032, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established December 1, 1952. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 138 active members, 11 terminated members eligible for vested benefits in the future, and 117 retirees receiving pension benefits.

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65 or age plus service equals 85.
Early Retirement	Age 55 with 10 years of service.
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

Benefit equals 2% of final average earnings; multiplied by years and months of credited service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	Amount dictated by retirement option chosen.

Service Related Disability Benefit:

Continued accrual of benefits until normal retirement date at which time benefits commence, must have 5 years of credited service.

ABINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	2014	2015	2016	2017	2018
Total Pension Liability					
Service cost	$ 1,520,570	$ 1,465,990	$ 1,575,939	$ 1,290,112	$ 1,386,870
Interest	3,982,642	4,243,608	4,376,524	4,622,097	4,749,817
Difference between expected and actual experience	-	(1,966,705)	-	(1,136,534)	-
Benefit payments, including refunds of member contributions	(1,965,034)	(1,973,120)	(2,188,146)	(2,596,497)	(3,742,507)
Net Change in Total Pension Liability	3,538,178	1,769,773	3,764,317	2,179,178	2,394,180
Total Pension Liability - Beginning	52,563,831	56,102,009	57,871,782	61,636,099	63,815,277
Total Pension Liability - Ending (a)	$ 56,102,009	$ 57,871,782	$ 61,636,099	$ 63,815,277	$ 66,209,457
Plan Fiduciary Net Position					
Contributions - employer	$ 1,069,091	$ 1,139,029	$ 782,023	$ 672,666	$ 552,359
Contributions - member	462,059	472,704	530,640	495,738	467,457
Net investment income	1,810,819	(425,016)	3,281,954	8,407,254	(2,907,339)
Benefit payments, including refunds of member contributions	(1,965,034)	(1,973,120)	(2,188,146)	(2,596,497)	(3,742,507)
Administrative expense	(23,937)	(55,380)	(33,453)	(32,991)	(25,505)
Net Change in Plan Fiduciary Net Position	1,352,998	(841,783)	2.373,018	6,946,170	(5,655,535)
Plan Fiduciary Net Position - Beginning	49,731,419	51,084,417	50,242,634	52,615,652	59,561,822
Plan Fiduciary Net Position - Ending (b)	$ 51,084,417	$ 50,242,634	$ 52,615,652	$ 59,561,822	$ 53,906,287
Net Pension Liability - Ending (a-b)	$ 5,017,592	$ 7,629,148	$ 9,020,447	$ 4,253,455	$ 12,303,170
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.1%	86.8%%	85.4%	93.3%	81.4%
Estimated Covered Employee Payroll	$ 11,491,057	$ 11,550,355	$ 12,070,121	$ 10,152,399	$ 10,609,257
Net Pension Liability as a Percentage of Covered Employee Payroll	43.7%	66.1%%	74.7%	41.9%	116.0%

ABINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the township as of December 31, 2015, 2016, 2017, and 2018 calculated using the discount rate of 7.5%, as well as what the township's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/15	$ 14,533,486	$ 7,692,148	$ 1,782,772
Net Pension Liability - 12/31/16	$ 16,402,109	$ 9,020,447	$ 3,059,226
Net Pension Liability - 12/31/17	$ 11,624,519	$ 4,253,455	$ (2,035,378)
Net Pension Liability - 12/31/18	$ 19,891,075	$ 12,303,170	$ 5,818,475

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 615,626	$ 615,626	$ -	$10,105,957	6.09%
2010	552,346	588,741	(36,395)	10,105,957	5.83%
2011	1,014,432	1,014,432	-	10,711,284	9.47%
2012	1,269,508	1,269,508	-	10,711,284	11.85%
2013	1,333,127	1,333,127	-	10,996,227	12.12%
2014	1,069,091	1,069,091	-	11,491,057	9.30%
2015	1,139,029	1,139,029	-	11,550,355	9.86%
2016	782,023	782,023	-	12,070,121	6.48%
2017	672,666	672,666	-	10,152,399	6.63%
2018	552,359	552,359	-	10,609,257	5.21%

ABINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(4.93%)
2017	16.10%
2016	6.53%
2015	(.84%)
2014	3.41%

ABINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2013, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	$ 49,102,289	$ 49,261,281	$ 158,992	99.7%
01-01-15	56,031,182	54,272,515	(1,758,667)	103.2%
01-01-17	63,138,782	60,578,857	(2,559,925)	104.2%

Note: The market values of the plan's assets at 1-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

ABINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

ABINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	N/A
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

ABINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
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